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Chile

Dairy and Products

Annual

2008

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Report Highlights:
Chile's dairy production this year is expected to expand due to an increased number of cows and productivity of the herd. An increase in milk prices paid to farmers due to an increase in international prices for dairy products is the main reason for the expansion of output for this and next year.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Chile's milk production is expected to increase significantly in 2008 (Jan-Dec). A considerable increase in the prices paid to producers together with an increasing number of cows and productivity of the milk-producing herd and good weather in most producing areas, are the main factors for the larger output. Domestic milk prices are an important factor that affects total milk output. Additionally weather is an important factor for pasture production, Chile's basic feed input. The outlook for the next three-to-five year's milk production also will depend on international dairy prices, government policies, and continued improvements in technology and animal genetics.

Production General

Chile's total milk output rose a modest 2 percent from 2.40 billion in 2006 to 2.45 billion liters in 2007, mainly due to an increase of, number of cows, productivity of the herd and an increase of the use of milk substitutes for raising calves increasing by this delivery to the processing plants. Additionally, climatic conditions in the primary dairy producing regions of the country were another factor which affected total production positively. For 2008 a production expansion of over 8 percent is expected, this is mainly due to a further expansion of the milk production herd. Additionally, the increase of milk prices paid to farmers also had a positive effect on production as farmers could increase supplemental feeding of their herds due to an significant increase of income.

Chile currently has an estimated 16,000 dairy farmers with approximately 650,000 cows in production, of which 80 percent are considered small producers and the whole dairy industry employs directly and indirectly an estimated 35,000 persons.

TABLE - Dairy Production

	Total Rec'd by Industry	Fluid Milk	Dry Milk	Butter	Cheese	Farmers Cheese	Yogurt	Conden. Milk
Year	--Million Liters--		---------------------------Thousand Kilograms--------------					
1980	592	127	32,566	4,016	13,902	3,868	15,054	7,835
1990	890	138	45,126	6,448	24,513	5,422	0,939	8,325
1995	1,358	225	61,418	6,651	40,816	5,873	67,663	8,674
1997	1,497	271	65,726	9,582	43,712	7,106	79,423	10,219
1998	1,530	269	70,877	11,159	46,528	7,631	82,243	13,244
1999	1,470	279	60,597	11,007	44,777	7,034	100,203	15,742
2000	1,447	275	59,669	9,855	44,718	7,167	106,624	24,400
2001	1,637	291	71,464	11,836	50,417	7,150	95,249	25,418
2002	1,605	296	67,710	11,551	53,075	7,480	127,057	24,190
2003	1,563	293	61,867	10,849	53,037	7,555	139,344	30,558
2004	1,676	289	63,633	13,084	58,849	8,296	159,828	38,698
2005	1,723	298	62,792	14,655	67,176	10,507	189,436	39,645
2006	1,818	319	69,491	17,157	62,072	9,088	157,980	43,426
2007	1,871	330	74,204	18,229	61,745	8,579	162,505	45,287
Source: Ministry of Agriculture								

Trade

Starting 2004 the dairy industry's exports exceeded imports in volume and value. In CY2007 the trade balance increased when compared to the previous year, in volume and value mainly as a result of high international prices of dairy products. The trade balance exceeded US$110 million, up from US$43 million in 2006. Latin American countries are the main destination for Chile's dairy exports, headed by Mexico with a 42 percent and Venezuela with a 35 percent of total dairy exports. Close to 40 percents of these exports correspond to whole and non fat dry milk.

Argentina was the main supplier of dairy products in spite of a 23 percent surcharge on imports during the first semester of 2007. Due to an influx of dairy imports mainly from Argentina, the GOC imposed safeguard measure against Argentinean dairy product imports. The share of imports from Argentina increased from 35 percent in 2005 to over 75 percent in 2006. The imposed safeguard rate, which came into effect October 13, 2006, was 23 percent. But as a result of significant increases of dairy product prices the GOC decided to suspend the safeguard measures temporarily in July of 2007 and left an option to re-impose the measure if it becomes necessary. The US has become Chile's second supplier of dairy products.

Policy

Although Chile bound its dairy product import duties (HS 04.02, 04.05, 04.06) at 31.5 percent in the Uruguay Round, a flat import tariff of 6 percent is applied on nearly all imported dairy products. Additionally, a value-added tax of 19 percent is charged at the consumer level on all goods, domestic or imported. Chile has reduced import duties only for Colombia and the United States for whole and non-fat dry milk as a result of the Free Trade Agreements with these countries. Non-fat dry milk enters duty free in 2007 and whole dry milk will be tariff free in 2011. Colombia will have duty fee access for both, whole and non-fat dry milk by 2012. For all other countries that have signed agreements with Chile, dairy products are excluded from the tariff reduction schedule.

TABLE-Chilean Tariff Reduction Schedule for Whole Dry Milk 0402.2118

Country of Origin	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Bolivia	Free of Duty								
Canada	General Tariff, 6%. Product excluded of tariff reduction								
Colombia	6%	6%	6%	5%	4%	3%	2%	1%	0
Costa Rica	General Tariff, 6%. Product excluded of tariff reduction								
Ecuador	General Tariff, 6%. Product excluded of tariff reduction								
El Salvador	General Tariff, 6%. Product excluded of tariff reduction								
U.S.	5,25%	4,5%	3,75%	3,0%	2,25%	1,5%	0,75%	0	0
Mexico	General Tariff, 6%. Product excluded of tariff reduction								
Mercosur	Free of Duty								
Peru	General Tariff, 6%. Product excluded of tariff reduction								
EU	6%	6%	At the third year a revision of the agreement						

Venezuela	General Tariff, 6%. Product excluded of tariff reduction

TABLE-Chilean Tariff Reduction Schedule for Nonfat Dry Milk 0402.1000

Country of Origin	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bolivia	General Tariff, 6%. Product excluded of tariff reduction								
Canada	General Tariff, 6%. Product excluded of tariff reduction								
Colombia	6%	6%	6%	5%	4%	3%	2%	1 %	0
Costa Rica	General Tariff, 6%. Product excluded of tariff reduction								
Ecuador	General Tariff, 6%. Product excluded of tariff reduction								
El Salvador	General Tariff, 6%. Product excluded of tariff reduction								
U.S.	5%	3%	2%	0	0	0	0	0	0
Mexico	General Tariff, 6%. Product excluded of tariff reduction								
Mercosur	Free of Duty								
Peru	General Tariff, 6%. Product excluded of tariff reduction								
EU.	6%	6%	At the third year a revision of the agreement						
Venezuela	General Tariff, 6%. Product excluded of tariff reduction								

As a result of Chile's trade agreements, the dairy industry expects to keep increasing its export market share. The US – Chile FTA provides for a 3,500 metric ton duty free quota for Chilean dairy products. This volume increases 10 percent each year until Chile gains duty free access in 2016. The agreement with the EU offers a duty free quota of 1,500 Tons, with a yearly increment of 5 percent. The agreement reached with South Korea gives only a 1,000 Metric Ton duty free quota for whey powder, but there is an agreed upon reduction in the high duties for dairy products like yogurt and cheese in 10 years. Duties applied to these products are 40 and 38 percent respectively. No preferences were agreed for dairy products in the Chile-Japan trade agreement.

In an effort to increase domestic consumption of milk and milk products the GOC, the industry and producers continues with a promotional campaign, which is evenly financed by all. These three players have agreed to form and finance an association (Promolac) that manages the contributed funds in promotional campaigns, mainly through TV and printed media. In 2008 contributions were only 550 million Chilean pesos because the GOC did not contribute their share.

Whole Dry Milk

Production

Close to 75 percent of Chile's production of dry milk is whole milk powder. Production of whole dry milk increased again in CY2007 when compared to both the previous year and our last years estimates. As a result of excellent prices and a strong export demand together with a recent increase of production capacity, the industry expects production of whole dry milk to increase close to 50 percent in 2008. The industry has been expanding their production capacity with investments in a new drying facility. For 2009 production of whole dry milk is expected to fall slightly as a result of lower dry milk prices due to the economic crisis that is affecting most countries.

Consumption

Dry milk is available for sale in practically all Chilean supermarkets and smaller grocery stores. Families that do not consume large quantities of milk or lack refrigerators to keep UHT fresh after opening prefer dry rather than fluid milk. Ultra high heat treated milk (UHT milk) is very common in Chile because you can store the containers for long time without refrigeration, but once opened the containers have to be kept in refrigerators. Government food programs also account for a significant proportion of dry milk consumption. Government tenders for dry milk may be filled by either domestic or imported product. During the winter months, the industry reconstitutes fluid milk from dry milk produced during the summer, in order to produce dairy products that have a constant demand throughout the year.

Trade

Due to higher international prices together with a increase in domestic dry milk production, imports of whole dry milk fell significantly in 2007. Only small amounts, less than five hundred tons are expected to be imported in 2008 and the coming years.

Chile's dry milk export markets are expected to expand in the coming years as the industry becomes more competitive and the price incentive increases. In the long-term, Chile's success in the dairy export market will depend upon its ability to compete with other countries. Chile's main export markets are in Latin America, particularly Venezuela, Cuba, Peru and Bolivia.

Dairy, Dry Whole Milk Powder Chile	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed	Jan Data	
Beginning Stocks	3	3	3	2	2	2		7	(1000 MT)
Production	51	51	53	54	54	70		75	(1000 MT)
Other Imports	4	4	0	10	10	0		0	(1000 MT)
Total Imports	4	4	0	10	10	0		0	(1000 MT)
Total Supply	58	58	56	66	66	72		82	(1000 MT)
Other Exports	9	9	10	14	14	14		20	(1000 MT)
Total Exports	9	9	10	14	14	14		20	(1000 MT)
Human Dom. Consumption	47	47	44	48	48	51		55	(1000 MT)
Other Use, Losses	0	0	0	0	0	0		0	(1000 MT)
Total Dom. Consumption	47	47	44	48	48	51		55	(1000 MT)
Total Use	56	56	54	62	62	65		75	(1000 MT)
Ending Stocks	2	2	2	4	4	7		7	(1000 MT)
Total Distribution	58	58	56	66	66	72		82	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0		0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0		0	(1000 MT)

Export Trade Matrix			
Country	**Chile**		
Commodity	**Dairy, Dry Whole Milk Powder**		
Time Period	**Jan-Dec**	**Units:**	M.T.
Exports for:	**2007**		**2008**
U.S.	**481**	**U.S.**	**562**
Others		**Others**	
Syria	**3500**	**Venezuela**	**7375**
Venezuela	**1566**	**Cuba**	**1100**
Cuba	**1400**	**Peru**	**399**
Guatemala	**1198**	**Singapore**	**75**
Honduras	**639**	**Bolivia**	**60**
El Salvador	**536**	**Guatemala**	**50**
Peru	**389**	**El Salvador**	**40**
Mexico	**175**	**China**	**25**
Bolivia	**106**	**Aruba**	**3**
Nicaragua	**50**		
Total for Others	**9559**		**9127**
Others not Listed	**10**		**0**
Grand Total	**10050**		**9689**
Note: Year 2008 data are for January through August only			

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2007		2008
U.S.	0	U.S.	0
Others		Others	
Uruguay	199	Argentina	114
Brazil	125	Brazil	100
Argentina	80	France	23
New Zealand	33	New Zealand	48
		Uruguay	25
Total for Others	437		311

Others not Listed	1		0
Grand Total	438		311
Note: Year 2008 data are for January through August only			

Non Fat Dry Milk

Production

Chile's NFDM production increased again in 2007, as milk output increased. Production in the coming years will depend on expected prices in international markets and changes in food industry consumption or specific strategies from individual industries.

Consumption

Chile's food industry determines to a great degree the consumption level of NFDM in Chile. Leading products made from NFDM are chocolate, ice cream and yogurt. The consumption rate of these products is in line with Chile's economic growth. For 2005 and beyond, utilization is expected to continue to increase, but at a slower rate.

Trade

The US has become again an important supplier of NFDM (non fat dry milk) for Chile. Competitive US prices for NFDM is the main reason for US milk imports, according to industry sources.

Dairy, Milk, Nonfat Dry Chile PS&D	2007			2008			2009			
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data	
Beginning Stocks	6	6	6	4	4	4			6	(1000 MT)
Production	15	15	17	16	16	20			20	(1000 MT)
Other Imports	4	4	2	4	4	7			4	(1000 MT)
Total Imports	4	4	2	4	4	7			4	(1000 MT)
Total Supply	25	25	25	24	24	31			30	(1000 MT)
Other Exports	1	1	0	1	1	2			2	(1000 MT)
Total Exports	1	1	0	1	1	2			2	(1000 MT)
Human Dom. Consumption	20	20	21	20	20	23			23	(1000 MT)
Other Use, Losses	0	0	0	0	0	0				(1000 MT)
Total Dom. Consumption	20	20	21	20	20	23			23	(1000 MT)
Total Use	21	21	21	21	21	25			25	(1000 MT)
Ending Stocks	4	4	4	3	3	6			5	(1000 MT)
Total Distribution	25	25	25	24	24	31			30	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0					(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0					(1000 MT)

Export Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2006		2007
U.S.	0	U.S.	0
Others		Others	
Venezuela	150	Singapore	765
Mexico	100	Mexico	290
Peru	66	Venezuela	200
El Salvador	7	Peru	175
Panama	8	Brazil	50
Bolivia	2	Taiwan	16
		Aruba	4
Total for Others	333		1500
Others not Listed	0		1
Grand Total	783		1501

Note: Year 2008 data are for January through August only			

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2007		2008
U.S.	194	U.S.	3410
Others		Others	
Netherlands	795	New Zealand	1853
Uruguay	682	Argentina	325
Germany	325	Canada	75
New Zealand	251	Brazil	63
France	48		
Argentina	25		
Australia	25		
Total for Others	2151		2316
Others not Listed	100		
Grand Total	2445		5726
Note: Year 2008 data are for January through August only			